

# **City of Rockwood, Michigan**

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**Financial Report  
with Supplemental Information  
June 30, 2008**

# City of Rockwood, Michigan

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## Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council  
City of Rockwood, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Rockwood, Michigan (the "City") as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Rockwood, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Rockwood, Michigan as of June 30, 2008 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Honorable Mayor and  
Members of the City Council  
City of Rockwood, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rockwood, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moreau, PLLC*

August 19, 2008

# City of Rockwood, Michigan

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## Management's Discussion and Analysis

Our discussion and analysis of the City of Rockwood, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the City's financial statements.

### Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2008:

- Property taxes are the City's single, largest source of revenue. Property tax revenue for general operations increased by approximately \$43,000 in the current year despite holding the operating millage at 16.0, which is less than the amount legally available to levy. The majority of the increase was due to inflationary increases in taxable value and some modest tax base growth.
- District Court revenue decreased by approximately \$65,000 in the current year. A reduction in court usage fees by approximately \$65,000 and a reduction of \$100,000 in the police operating budget due to the elimination of the truck enforcement officer position should prevent the police budget from a possible deficit next year.
- Patricia Lezotte Quick Park has been re-deeded to the City by Wayne County. The City is currently in the process of obtaining the permits for the project. The City has been awarded a federal grant in the amount of \$240,000 that will be used to fund the project.
- After an intense meeting and discussion with the DEQ, savings of \$300,000 were obtained which will allow the City the ability to work on its sewer infrastructure as monies become available. A \$30,000 flow meter, as required by the DEQ, shall be installed in the 2009 fiscal year.
- All union contracts have been negotiated with a four-year, 2 1/2 percent pay increase per year.

### Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statement provides financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

# City of Rockwood, Michigan

## Management's Discussion and Analysis (Continued)

### The City as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2008 and 2007:

	Governmental Activities		Business-type Activities		Total	
	2007	2008	2007	2008	2007	2008
<b>Assets</b>						
Current assets	\$ 2,238,432	\$ 2,334,892	\$ 735,369	\$ 700,485	\$ 2,973,801	\$ 3,035,377
Noncurrent assets	<u>5,487,363</u>	<u>5,249,439</u>	<u>4,588,318</u>	<u>4,415,585</u>	<u>10,075,681</u>	<u>9,665,024</u>
Total assets	7,725,795	7,584,331	5,323,687	5,116,070	13,049,482	12,700,401
<b>Liabilities</b>						
Current liabilities	478,230	516,649	211,279	188,550	689,509	705,199
Long-term liabilities	<u>3,322,878</u>	<u>3,130,668</u>	<u>1,860,557</u>	<u>1,789,338</u>	<u>5,183,435</u>	<u>4,920,006</u>
Total liabilities	<u>3,801,108</u>	<u>3,647,317</u>	<u>2,071,836</u>	<u>1,977,888</u>	<u>5,872,944</u>	<u>5,625,205</u>
<b>Net Assets</b>						
Invested in capital assets -						
Net of related debt	2,095,482	2,058,306	2,668,318	2,565,585	4,763,800	4,623,891
Restricted	960,351	956,348	50,791	100,717	1,011,142	1,057,065
Unrestricted	<u>868,854</u>	<u>922,360</u>	<u>532,742</u>	<u>471,880</u>	<u>1,401,596</u>	<u>1,394,240</u>
Total net assets	<u>\$ 3,924,687</u>	<u>\$ 3,937,014</u>	<u>\$ 3,251,851</u>	<u>\$ 3,138,182</u>	<u>\$ 7,176,538</u>	<u>\$ 7,075,196</u>

The City has combined net assets of approximately \$7.1 million. Business-type activities comprise approximately \$3.1 million of the total net assets. In the current year, the City's total net assets decreased by approximately \$101,000.

# City of Rockwood, Michigan

## Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets during the fiscal years ended June 30, 2008 and 2007:

	Governmental Activities		Business-type Activities		Total	
	2007	2008	2007	2008	2007	2008
<b>Revenue</b>						
Program revenue:						
Charges for services	\$ 618,860	\$ 576,378	\$ 801,605	\$ 822,217	\$ 1,420,465	\$ 1,398,595
Operating grants and contributions	179,416	264,873	-	-	179,416	264,873
General revenue:						
Property taxes	1,887,799	1,908,756	133,562	138,880	2,021,361	2,047,636
State-shared revenue	336,446	328,380	-	-	336,446	328,380
Unrestricted investment earnings	118,370	96,099	20,985	18,209	139,355	114,308
Other	114,177	105,617	-	-	114,177	105,617
Total revenue	3,255,068	3,280,103	956,152	979,306	4,211,220	4,259,409
<b>Program Expenses</b>						
General government	1,210,631	1,341,349	-	-	1,210,631	1,341,349
Public safety	1,270,675	1,304,678	-	-	1,270,675	1,304,678
Public works	378,206	308,628	-	-	378,206	308,628
Recreation and culture	184,085	154,581	-	-	184,085	154,581
Interest on long-term debt	136,408	158,540	89,589	89,589	225,997	248,129
Water and sewer	-	-	1,029,688	1,003,386	1,029,688	1,003,386
Total program expenses	3,180,005	3,267,776	1,119,277	1,092,975	4,299,282	4,360,751
<b>Change in Net Assets</b>	<b>\$ 75,063</b>	<b>\$ 12,327</b>	<b>\$ (163,125)</b>	<b>\$ (113,669)</b>	<b>\$ (88,062)</b>	<b>\$ (101,342)</b>

### Governmental Activities

The City's total governmental revenues increased by approximately \$25,000. While there were decreases in charges for services from court fines and fees revenue, there was an increase in operating grants and contributions.

During the year, expenses increased by approximately \$87,000. The increases were primarily due to increases in general public safety expenses and general government expenses.

# **City of Rockwood, Michigan**

## **Management's Discussion and Analysis (Continued)**

### **Business-type Activities**

The City's business-type activities consist of the Wastewater Treatment Fund and the Water and Sewer Fund. The City provides water to residents from the Detroit water system. The City provides sewage treatment through a City-owned and operated sewage treatment plant. As in the prior year, the City had an operating loss in the Water and Sewer Fund. The wastewater treatment plant also had an operating loss. These losses were essentially due to depreciation expenses, which is a noncash cost. The Wastewater Treatment and Water and Sewer Funds' revenues increased from the prior year. To the extent revenues exceed the respective funds' cash basis operating expenses, this modest amount of excess revenue is relied upon to provide for major repairs of the systems as well as system replacement and improvements.

### **The City's Funds**

The analysis of the City's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for 2008 include the General Fund, Major Roads Fund, Local Roads Fund, Commerce Park Fund, and the City Hall Construction Fund.

The General Fund pays for most of the City's governmental services.

### **General Fund Budgetary Highlights**

Over the course of the year, the City amended the General Fund budget to take into account events during the year. The most significant changes were increases in the estimated engineering expenses, community center building expenses, and master plan expenses of approximately \$5,000, \$19,650, and \$11,000, respectively. These amendments were the result of unanticipated expenditures incurred by the City. Overall, most of the City departments stayed within budgeted expenditures. The General Fund's fund balance increased from \$879,983 a year ago, to \$979,426 for the year ended June 30, 2008.

### **Capital Asset and Debt Administration**

At the end of 2008, the City had approximately \$9,665,000 (net of depreciation) invested in a broad range of capital assets, including buildings, police and fire equipment, vehicles, water and sewer lines, and infrastructure.

The City continues to collect property tax revenues from specific millages to pay for the sanitary sewer debt, fire equipment debt, and the City Hall building debt.



# **City of Rockwood, Michigan**

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## **Management's Discussion and Analysis (Continued)**

### **Economic Factors and Next Year's Budgets and Rates**

Due to the recession, the community has directed the administration to hold or lower millage rates. Because of the impact of Proposal A, however, the City needs to continue to watch its budget very closely. The state-wide Tax Reform Act limits growth in taxable value on any individual property to the lesser of the rate of inflation or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City will grow less than by inflation, before considering new property additions.

The City anticipates that the water rates will have to increase somewhat in the current year to address inflation and the increase in the City of Detroit wholesale water rate charged to the City. The City staff is in the process of evaluating the amount of increase that will be needed and will likely have a public hearing before the end of calendar year 2008 to discuss the need for such an increase.

In the area of development, the construction of the Rite Aid Pharmacy has been completed.

### **Contacting the City's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

# City of Rockwood, Michigan

## Statement of Net Assets June 30, 2008

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents (Note 3)	\$ 2,201,399	\$ 503,237	\$ 2,704,636	\$ 43,397
Property taxes - Delinquent	6,306	383	6,689	-
Accounts receivable - Customer billings	-	176,404	176,404	-
Other receivables	-	1,500	1,500	-
Interfund balances (Note 6)	22,136	(22,136)	-	-
Due from other governmental units	68,309	-	68,309	-
Inventories	-	41,097	41,097	-
Other assets	36,742	-	36,742	-
Capital assets - Net (Note 5)	5,249,439	4,415,585	9,665,024	-
Total assets	7,584,331	5,116,070	12,700,401	43,397
<b>Liabilities</b>				
Accounts payable and other accruals	222,591	94,325	316,916	-
Deposits	65,477	19,225	84,702	-
Compensated absences (Note 7):				
Due within one year	15,000	-	15,000	-
Due in more than one year	153,116	14,338	167,454	-
Long-term debt (Note 7):				
Due within one year	213,581	75,000	288,581	-
Due in more than one year	2,977,552	1,775,000	4,752,552	-
Total liabilities	3,647,317	1,977,888	5,625,205	-
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	2,058,306	2,565,585	4,623,891	-
Restricted:				
Streets and highways	752,153	-	752,153	-
Debt service	191,574	-	191,574	-
Drug forfeiture	12,621	-	12,621	-
Capital improvements	-	100,717	100,717	-
Unrestricted	922,360	471,880	1,394,240	43,397
Total net assets	<u>\$ 3,937,014</u>	<u>\$ 3,138,182</u>	<u>\$ 7,075,196</u>	<u>\$ 43,397</u>

# City of Rockwood, Michigan

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Functions/Programs</b>				
Primary government:				
Governmental activities:				
General government	\$ 1,341,349	\$ 179,869	\$ 90,067	\$ -
Public safety	1,304,678	358,647	-	-
Public works	308,628	-	173,909	-
Recreation and culture	154,581	37,862	897	-
Interest on long-term debt	158,540	-	-	-
Total governmental activities	3,267,776	576,378	264,873	-
Business-type activities:				
Wastewater treatment	268,252	205,891	-	-
Water and sewer	824,723	616,326	-	-
Total business-type activities	1,092,975	822,217	-	-
Total primary government	<u>\$ 4,360,751</u>	<u>\$ 1,398,595</u>	<u>\$ 264,873</u>	<u>\$ -</u>
Component unit - Tax increment financing authority	<u>\$ 1,005</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Gain on sale of capital assets				
Miscellaneous				
Total general revenues				
<b>Change in Net Assets</b>				
<b>Net Assets - July 1, 2007</b>				
<b>Net Assets - June 30, 2008</b>				

**Statement of Activities**  
**Year Ended June 30, 2008**

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (1,071,413)	\$ -	\$ (1,071,413)	\$ -
(946,031)	-	(946,031)	-
(134,719)	-	(134,719)	-
(115,822)	-	(115,822)	-
(158,540)	-	(158,540)	-
(2,426,525)	-	(2,426,525)	-
-	(62,361)	(62,361)	-
-	(208,397)	(208,397)	-
-	(270,758)	(270,758)	-
(2,426,525)	(270,758)	(2,697,283)	-
-	-	-	(1,005)
1,908,756	138,880	2,047,636	-
328,380	-	328,380	-
96,099	18,209	114,308	449
2,800	-	2,800	-
102,817	-	102,817	-
2,438,852	157,089	2,595,941	449
12,327	(113,669)	(101,342)	(556)
3,924,687	3,251,851	7,176,538	43,953
<u>\$ 3,937,014</u>	<u>\$ 3,138,182</u>	<u>\$ 7,075,196</u>	<u>\$ 43,397</u>

# City of Rockwood, Michigan

## Governmental Funds Balance Sheet June 30, 2008

	Major Special Revenue Funds				Debt Service Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
	General Fund	Major Roads	Local Roads	Commerce Park	City Hall Construction		
<b>Assets</b>							
Cash and cash equivalents	\$ 1,074,140	\$ 707,353	\$ 59,726	\$ 131,364	\$ 190,421	\$ 38,395	\$ 2,201,399
Property taxes - Delinquent	5,517	-	-	-	789	-	6,306
Due from other governmental units	48,936	9,781	4,373	-	-	5,219	68,309
Due from other funds	69,818	2,376	30,193	-	586	-	102,973
Other assets	36,742	-	-	-	-	-	36,742
Total assets	<u>\$ 1,235,153</u>	<u>\$ 719,510</u>	<u>\$ 94,292</u>	<u>\$ 131,364</u>	<u>\$ 191,796</u>	<u>\$ 43,614</u>	<u>\$ 2,415,729</u>
<b>Liabilities and Fund Balances</b>							
<b>Liabilities</b>							
Accounts payable and other accruals	\$ 189,725	\$ -	\$ -	\$ -	\$ 222	\$ 7,769	\$ 197,716
Due to other funds	1,625	40,712	20,937	-	-	17,563	80,837
Deposits	64,377	-	-	-	-	1,100	65,477
Total liabilities	255,727	40,712	20,937	-	222	26,432	344,030
<b>Fund Balances</b>							
Reserved for debt service	-	-	-	-	191,574	-	191,574
Unreserved:							
Designated - Reported in General Fund (Note 11)	641,951	-	-	-	-	-	641,951
Undesignated - Reported in:							
General Fund	337,475	-	-	-	-	-	337,475
Special Revenue Funds	-	678,798	73,355	131,364	-	17,182	900,699
Total fund balances	979,426	678,798	73,355	131,364	191,574	17,182	2,071,699
Total liabilities and fund balances	<u>\$ 1,235,153</u>	<u>\$ 719,510</u>	<u>\$ 94,292</u>	<u>\$ 131,364</u>	<u>\$ 191,796</u>	<u>\$ 43,614</u>	<u>\$ 2,415,729</u>
<b>Total Fund Balances for Governmental Funds</b>							\$ 2,071,699
Amounts reported for governmental activities in the statement of net assets are different because:							
Capital assets used in governmental activities are not financial resources and are not reported in the funds							5,249,439
Long-term liabilities are not due and payable in the current period and are not reported in the funds							(3,384,124)
<b>Net Assets of Governmental Activities</b>							<u>\$ 3,937,014</u>

# City of Rockwood, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2008

	Major Special Revenue Funds				Debt Service Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
	General Fund	Major Roads	Local Roads	Commerce Park	City Hall Construction		
<b>Revenue</b>							
Property taxes	\$ 1,622,652	\$ -	\$ -	\$ -	\$ 286,104	\$ -	\$ 1,908,756
Licenses and permits	55,976	-	-	-	-	-	55,976
Federal sources	-	-	-	-	-	122,919	122,919
State sources	329,611	120,323	53,586	-	-	-	503,520
District Court	301,507	-	-	-	-	-	301,507
Interest and rentals	59,144	25,591	988	5,339	4,797	240	96,099
Other	290,500	1,337	-	-	-	44,274	336,111
Total revenue	2,659,390	147,251	54,574	5,339	290,901	167,433	3,324,888
<b>Expenditures</b>							
Current:							
General government	1,008,363	-	-	-	-	-	1,008,363
Public safety	932,383	-	-	-	-	5,907	938,290
District Court	257,893	-	-	-	-	-	257,893
DPW	34,018	-	-	-	-	-	34,018
Public works, street lighting, and rubbish collection	226,190	71,458	111,000	2,957	-	-	411,605
Community center	-	-	-	-	-	56,812	56,812
Recreation and culture	45,275	-	-	-	-	122,919	168,194
Other expenditures	19,434	-	-	-	117	-	19,551
Debt service	24,391	-	-	-	310,022	-	334,413
Total expenditures	2,547,947	71,458	111,000	2,957	310,139	185,638	3,229,139
<b>Excess of Revenue Over (Under) Expenditures</b>	111,443	75,793	(56,426)	2,382	(19,238)	(18,205)	95,749
<b>Other Financing Sources (Uses)</b>							
Transfers in	16,000	-	60,162	-	-	28,000	104,162
Transfers out	(28,000)	(65,162)	-	(11,000)	-	-	(104,162)
Total other financing sources (uses)	(12,000)	(65,162)	60,162	(11,000)	-	28,000	-
<b>Net Change in Fund Balances</b>	99,443	10,631	3,736	(8,618)	(19,238)	9,795	95,749
<b>Fund Balances - July 1, 2007</b>	879,983	668,167	69,619	139,982	210,812	7,387	1,975,950
<b>Fund Balances - June 30, 2008</b>	<u>\$ 979,426</u>	<u>\$ 678,798</u>	<u>\$ 73,355</u>	<u>\$ 131,364</u>	<u>\$ 191,574</u>	<u>\$ 17,182</u>	<u>\$ 2,071,699</u>

# City of Rockwood, Michigan

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## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2008**

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ 95,749</b>
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay	40,304
Depreciation expense	(276,028)

Proceeds from the sale of capital assets are revenue in the governmental funds, but not in the statement of activity (where the gain or loss on the sale is recorded)	(2,200)
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Repayment of bond principal and installment debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	200,748
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Accrued interest expense on long-term debt is an expenditure in the statement of activities, but not in the governmental funds	(24,875)
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Increase in accumulated employee sick and vacation pay	<u>(21,371)</u>
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<b>Change in Net Assets of Governmental Activities</b>	<b><u>\$ 12,327</u></b>
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# City of Rockwood, Michigan

## Proprietary Funds Statement of Net Assets June 30, 2008

	Enterprise Funds		
	Water and Sewer	Wastewater Treatment	Total
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 94,293	\$ 408,944	\$ 503,237
Accounts receivable - Customer billings	176,404	-	176,404
Property taxes - Delinquent	383	-	383
Other receivables	-	1,500	1,500
Inventories	41,097	-	41,097
Total current assets	312,177	410,444	722,621
Noncurrent assets - Capital assets	3,007,236	1,408,349	4,415,585
Total assets	3,319,413	1,818,793	5,138,206
<b>Liabilities</b>			
Current liabilities:			
Accounts payable and other accruals	53,880	40,445	94,325
Due to other funds	16,709	5,427	22,136
Deposits	19,225	-	19,225
Current portion of long-term debt	75,000	-	75,000
Total current liabilities	164,814	45,872	210,686
Noncurrent liabilities:			
Long-term portion of compensated absences	14,338	-	14,338
Long-term debt - Net of current portion	1,775,000	-	1,775,000
Total noncurrent liabilities	1,789,338	-	1,789,338
Total liabilities	1,954,152	45,872	2,000,024
<b>Net Assets</b>			
Investment in capital assets - Net of related debt	1,157,236	1,408,349	2,565,585
Restricted for capital improvements	100,717	-	100,717
Unrestricted	107,308	364,572	471,880
Total net assets	\$ 1,365,261	\$ 1,772,921	\$ 3,138,182



# City of Rockwood, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2008

	Enterprise Funds		
	Water and Sewer	Wastewater Treatment	Total
<b>Operating Revenue</b>			
Sale of water	\$ 285,690	\$ -	\$ 285,690
Sale of sewer services	308,722	-	308,722
Sewage disposal charges	-	205,891	205,891
Customer interest and penalty charges	13,690	-	13,690
Total operating revenue	608,102	205,891	813,993
<b>Operating Expenses</b>			
Cost of water purchased	189,033	-	189,033
Cost of sewage treatment	205,891	-	205,891
Plant management charges	-	194,923	194,923
Salaries and fringe benefits	92,688	-	92,688
Professional services	28,693	9,250	37,943
Office administration expenses	8,657	-	8,657
Supplies, maintenance, and other	6,024	15,454	21,478
Utilities	6,539	-	6,539
Miscellaneous	7,421	12,911	20,332
Depreciation	197,834	35,714	233,548
Total operating expenses	742,780	268,252	1,011,032
<b>Operating Loss</b>	(134,678)	(62,361)	(197,039)
<b>Nonoperating Income (Expense)</b>			
Property taxes	138,880	-	138,880
Interest income	3,696	14,513	18,209
Interest expense	(81,943)	-	(81,943)
Tap-in fees	8,224	-	8,224
Total nonoperating income	68,857	14,513	83,370
<b>Change in Net Assets</b>	(65,821)	(47,848)	(113,669)
<b>Net Assets - July 1, 2007</b>	1,431,082	1,820,769	3,251,851
<b>Net Assets - June 30, 2008</b>	<u>\$ 1,365,261</u>	<u>\$ 1,772,921</u>	<u>\$ 3,138,182</u>

# City of Rockwood, Michigan

## Proprietary Funds Statement of Cash Flows Year Ended June 30, 2008

	Enterprise Funds		
	Water and Sewer	Wastewater Treatment	Total
<b>Cash Flows from Operating Activities</b>			
Receipts from customers	\$ 566,839	\$ -	\$ 566,839
Payments to suppliers	(238,311)	(264,542)	(502,853)
Payments to employees	(92,688)	-	(92,688)
Internal activity - Payments (to) from other funds	(267,560)	270,022	2,462
Net cash provided by (used in) operating activities	(31,720)	5,480	(26,240)
<b>Cash Flows from Capital and Related Financing Activities</b>			
Principal payments on long-term debt	(70,000)	-	(70,000)
Collection of property taxes for debt service	138,880	-	138,880
Interest paid on bonds	(81,943)	-	(81,943)
Tap-in fees	8,224	-	8,224
Purchase of capital assets	(60,815)	-	(60,815)
Net cash used in capital and related financing activities	(65,654)	-	(65,654)
<b>Cash Flows from Investing Activities - Interest received on investments</b>	3,696	14,513	18,209
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(93,678)	19,993	(73,685)
<b>Cash and Cash Equivalents - July 1, 2007</b>	187,971	388,951	576,922
<b>Cash and Cash Equivalents - June 30, 2008</b>	<u>\$ 94,293</u>	<u>\$ 408,944</u>	<u>\$ 503,237</u>
<b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>			
Operating loss	\$ (134,678)	\$ (62,361)	\$ (197,039)
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation and amortization	197,834	35,714	233,548
Changes in assets and liabilities:			
Accounts receivable - Customer billings	(41,474)	-	(41,474)
Property taxes - Delinquent	211	-	211
Due from other funds	-	58,704	58,704
Accounts payable and other accruals	7,806	(32,004)	(24,198)
Due to other funds	(61,669)	5,427	(56,242)
Deposits	250	-	250
Net cash provided by (used in) operating activities	<u>\$ (31,720)</u>	<u>\$ 5,480</u>	<u>\$ (26,240)</u>

# City of Rockwood, Michigan

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## **Fiduciary Fund Statement of Assets and Liabilities June 30, 2008**

	<u>Agency Fund</u>
<b>Assets</b> - Cash and cash equivalents	<u><u>\$ 664</u></u>
<b>Liabilities</b> - Due to other governmental units	<u><u>\$ 664</u></u>

# City of Rockwood, Michigan

## Component Units Statement of Net Assets June 30, 2008

	TIFA	Economic Development Corporation	Total
<b>Assets - Cash and cash equivalents</b>	<b><u>\$ 41,431</u></b>	<b><u>\$ 1,966</u></b>	<b><u>\$ 43,397</u></b>
<b>Net Assets - Unrestricted</b>	<b><u>\$ 41,431</u></b>	<b><u>\$ 1,966</u></b>	<b><u>\$ 43,397</u></b>

# City of Rockwood, Michigan

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		Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
	<u>Expenses</u>	<u></u>	<u></u>	<u></u>
Tax Increment Finance Authority (TIFA) -				
General government	\$ 1,005	\$ -	\$ -	\$ -
Economic Development Corporation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u><b>\$ 1,005</b></u>	<u><b>\$ -</b></u>	<u><b>\$ -</b></u>	<u><b>\$ -</b></u>

**General Revenues - Interest**

**Change in Net Assets**

**Net Assets - July 1, 2007**

**Net Assets - June 30, 2008**

**Component Units  
Statement of Activities  
Year Ended June 30, 2008**

Net (Expense) Revenue and Changes in Net Assets		
Economic Development Corporation		
TIFA		Total
\$ (1,005)	\$ -	\$ (1,005)
-	-	-
(1,005)	-	(1,005)
449	-	449
(556)	-	(556)
41,987	1,966	43,953
<b>\$ 41,431</b>	<b>\$ 1,966</b>	<b>\$ 43,397</b>

# City of Rockwood, Michigan

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## Notes to Financial Statements June 30, 2008

### **Note I - Summary of Significant Accounting Policies**

The accounting policies of the City of Rockwood, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Rockwood, Michigan:

#### **Reporting Entity**

The City of Rockwood, Michigan is governed by an elected mayor and six-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City (see discussion below for descriptions).

#### **Discretely Presented Component Units**

##### **Tax Increment Finance Authority (TIFA)**

The Tax Increment Finance Authority (TIFA) was created to encourage development within a certain district of the City. The TIFA's governing body, which consists of eight individuals, is appointed by the mayor and approved by the City Council. In addition, the TIFA's budget is subject to approval by the City Council. During the year ended June 30, 2005, a resolution was passed by the City Council rendering the TIFA legally inactive and, as such, it did not capture taxes in the current year and will not capture taxes in the future. The TIFA does not issue its own financial statements.

##### **Economic Development Corporation (EDC)**

The Economic Development Corporation (EDC) was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. There was no activity in the EDC in the current year.

#### **The Rockwood Housing Commission**

The Rockwood Housing Commission has not been included in the City's reporting entity because the City lacks the ability to impose its will on the Housing Commission under the guidelines of Governmental Accounting Standards Board Statement No. 14 (GASB No. 14). This entity is subject to separate audit requirements.

### **Note I - Summary of Significant Accounting Policies (Continued)**

#### **Jointly Governed Organization**

The City is a participant in a jointly governed organization as discussed in Note I3.

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and the fiduciary fund, even though the latter is excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.



### **Note I - Summary of Significant Accounting Policies (Continued)**

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental funds:

**General Fund** - The General Fund contains the records of the ordinary activities of the City that are not accounted for in another fund. General Fund activities are financed by revenue from general property taxes, state-shared revenue, and other sources.

**Major Roads Fund** - The Major Roads Fund's purpose is to account for expenditures associated with the construction and maintenance needs of the major street portion of the City's street network. Financing is provided by the City's share of state gas and weight taxes and interest on investments.

**Local Roads Fund** - The Local Roads Fund's purpose is to account for expenditures associated with the construction and maintenance needs of the local street portion of the City's street network. Financing is provided by the City's share of gas and weight taxes, transfers from other funds, and interest on investments.

### **Note I - Summary of Significant Accounting Policies (Continued)**

**Commerce Park Fund** - The Commerce Park Fund's purpose is to maintain and improve City-owned land in Commerce Park for eventual sale.

**City Hall Construction Fund** - The City Hall Construction Fund was used to account for construction and purchase of capital assets for the City Hall complex. Currently, the fund collects property taxes and pays the debt service on the outstanding City Hall bonds.

The City reports the following major proprietary funds:

**Water and Sewer Fund** - The Water and Sewer Fund is used to account for the activities of the water distribution system and sewage collection system. The fund is financed primarily by a user charge for the provided service.

**Wastewater Treatment Fund** - The Wastewater Treatment Fund is used to account for the activities of the wastewater treatment plant operated by the City.

Additionally, the City reports the following fund type:

**Agency Fund** - The Agency Fund is used to account for assets held by the City as an agent for individuals, organizations, other governmental units, or other funds. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of result of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund recognizes tap charges as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

#### **Assets, Liabilities, and Net Assets or Equity**

**Cash and Cash Equivalents** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. To the extent that cash from various funds has been pooled, pooled investment income is generally allocated to each fund using a weighted average.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

**Property Taxes** - Property taxes are assessed as of December 31 and become a lien on December 1 of the following year. The related property taxes are billed on July 1 and December 1 of the following year. These taxes are due on August 31 and February 28, respectively, with the final collection date of February 28 before they are added to the county tax rolls. The City budgets and recognizes all revenue in the fiscal year ending on each June 30 relating to the tax bills issued on the preceding July 1 and December 1, since the proceeds of the tax levy are then available for financing operations.

The 2007 taxable valuation of the City approximated \$97.0 million on which taxes levied consisted of 16 mills for operating purposes, 1.45 mills for sanitary sewer debt service, 2.95 mills for City Hall building debt service, and 0.27 mills for fire equipment debt service. This resulted in approximately \$1,550,000 for operating, \$139,000 for sanitary sewer debt service, \$286,000 for City Hall building debt service, and \$26,000 for fire equipment debt service. These amounts are recognized in the respective General, Water and Sewer, and City Hall Construction Funds financial statements as tax revenue.

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Inventories and Prepaid Items** - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when purchased rather than when consumed.

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, infrastructure, and vehicles are depreciated using the straight-line method over the following useful lives:

Infrastructure - Roads and sidewalks	10 to 25 years
Infrastructure - Bridges	50 years
Water and sewer distribution systems and components	10 to 50 years
Water and sewer treatment facilities	10 to 39 years
Buildings and building improvements	40 years
Vehicles	3 to 10 years
Furniture	5 years
Equipment	5 to 15 years

**Compensated Absences (Vacation and Sick Leave)** - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. When material, bond premiums, and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable recorded bond premium or discount. Recorded bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Other accounting policies are disclosed in other notes to the financial statements.

### **Note 2 - Stewardship, Compliance, and Accountability**

The City is legally subject to the budgetary control requirements of State of Michigan P.A. 621 of 1978 (the Uniform Budgeting Act). The following statements represent a brief synopsis of the major provisions of this Act:

1. Budgets must be adopted for the General Fund and Special Revenue Funds.
2. The budgets must be balanced. The balanced budget may include a contribution to or appropriation from fund balance.
3. The budgets must be amended when necessary.

### **Note 2 - Stewardship, Compliance, and Accountability (Continued)**

4. Debt cannot be entered into unless permitted by law.
5. Expenditures cannot exceed budget appropriations.
6. Expenditures cannot be made unless authorized in the budget.
7. Public hearings must be held before budget adoptions.

The City adopts its budget by budgetary center (activity/department), which is in accordance with the State's legal requirement and is the level of classification detail at which expenditures may not legally exceed appropriations.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. On or before the first City Council meeting in May of the fiscal and budget year (July 1), the mayor shall prepare and submit to the City Council a complete itemized proposed budget for the next fiscal year.
2. A public hearing on the budget shall be held before its final adoption, at such time and place as the City Council shall direct, and notice of such public hearing shall be published at least one week in advance thereof by the clerk.
3. The City Council shall, on or before the first City Council meeting in June of the next fiscal year, adopt a budget for the ensuing fiscal year.

The annual budget is prepared by the City's management and adopted by the City Council; subsequent amendments are approved by the City Council. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2008 has not been calculated.

During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, with the following exceptions:

- Operating transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)."
- Reimbursements from other funds have been included in revenue, rather than as a reduction of expenditures.

# City of Rockwood, Michigan

## Notes to Financial Statements June 30, 2008

### Note 2 - Stewardship, Compliance, and Accountability (Continued)

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the General Fund budget and Major Special Revenue Funds as adopted by the City Council is included in the required supplemental information section. A comparison of the actual results of operations to the Nonmajor Special Revenue Funds' budgets as adopted by the City Council are available at the clerk's office for inspection.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the City incurred expenditures that were in excess of the amounts budgeted, as follows:

	Amended Budget	Actual	Variance with Amended Budget
<b>General Fund</b>			
Administration and general government:			
Inspections	\$ 18,000	\$ 31,308	\$ (13,308)
Building	68,500	70,443	(1,943)
District Court	255,540	257,893	(2,353)
Other	32,800	43,825	(11,025)
<b>Major Roads Fund</b> - Transfer to other fund	60,000	65,162	(5,162)
<b>Commerce Park Fund</b> - Other expenses	-	2,957	(2,957)

# City of Rockwood, Michigan

## Notes to Financial Statements June 30, 2008

### Note 2 - Stewardship, Compliance, and Accountability (Continued)

**Construction Code Fees** - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Shortfall at July 1, 2007	\$ (47,698)
Current year building permit revenue	50,378
Related expenses:	
Direct costs	\$ 31,308
Estimated indirect costs	<u>22,500</u>
Total construction code expenses	<u>53,808</u>
Cumulative shortfall at June 30, 2008	<u><u>\$ (51,128)</u></u>

### Note 3 - Deposits

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated three banks for the deposit of its funds. The investment policy adopted by the Council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above. The City's deposits and investment policies are in accordance with statutory authority. The Tax Increment Finance Authority also follows the City's policies.



### **Note 3 - Deposits (Continued)**

The City's cash and investments are subject to custodial credit risk of bank deposits, which is examined in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$2,433,672 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

All of the City's component units' bank deposits were insured at June 30, 2008.

### **Note 4 - Deferred Revenue**

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds and governmental activities also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, there was no deferred revenue.

# City of Rockwood, Michigan

## Notes to Financial Statements June 30, 2008

### Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2007	Additions	Disposals and Adjustments	Balance June 30, 2008
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Land	\$ 187,805	\$ -	\$ -	\$ 187,805
Construction in progress	149,011	-	-	149,011
Capital assets being depreciated:				
Buildings and improvements	4,899,287	4,090	-	4,903,377
Furniture	670,849	9,650	-	680,499
Equipment and vehicles	2,399,479	26,564	22,000	2,404,043
Infrastructure	331,814	-	-	331,814
Subtotal	8,301,429	40,304	22,000	8,319,733
Accumulated depreciation:				
Buildings and improvements	1,083,179	112,799	-	1,195,978
Furniture	520,819	25,356	-	546,175
Equipment and vehicles	1,300,600	120,640	19,800	1,401,440
Infrastructure	246,284	17,233	-	263,517
Subtotal	3,150,882	276,028	19,800	3,407,110
Net capital assets being depreciated	5,150,547	(235,724)	2,200	4,912,623
Net capital assets	<u>\$ 5,487,363</u>	<u>\$ (235,724)</u>	<u>\$ 2,200</u>	<u>\$ 5,249,439</u>
<b>Business-type Activities</b>				
Capital assets being depreciated:				
Water and sewer distribution and treatment systems	\$ 7,626,842	\$ 6,006	\$ -	\$ 7,632,848
Buildings and building improvements	616,709	-	-	616,709
Equipment	348,853	54,809	-	403,662
Subtotal	8,592,404	60,815	-	8,653,219
Accumulated depreciation	4,004,086	233,548	-	4,237,634
Net capital assets	<u>\$ 4,588,318</u>	<u>\$ (172,733)</u>	<u>\$ -</u>	<u>\$ 4,415,585</u>

# City of Rockwood, Michigan

## Notes to Financial Statements June 30, 2008

### Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 46,096
Public safety	125,695
Recreation and culture	51,974
Public works	<u>52,263</u>
Total governmental activities	<u>\$ 276,028</u>
Business-type activities:	
Water and sewer	\$ 197,834
Wastewater treatment	<u>35,714</u>
Total business-type activities	<u>\$ 233,548</u>

### Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
<b>Due to/from Other Funds</b>		
General Fund	Water and Sewer Fund	\$ 22,136
	Other nonmajor governmental funds	17,563
	Major Roads Fund	10,519
	Local Roads Fund	<u>19,600</u>
	Total General Fund	69,818
Major Roads Fund	General Fund	1,039
	Local Roads Fund	<u>1,337</u>
	Total Major Roads Fund	2,376
Local Roads Fund	Major Roads Fund	30,193
City Hall Construction Fund	General Fund	<u>586</u>
	Total governmental funds	102,973
Water and Sewer Fund	Wastewater Treatment Fund	<u>5,427</u>
	Total interfund receivables	<u>\$ 108,400</u>

# City of Rockwood, Michigan

## Notes to Financial Statements June 30, 2008

### Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Other nonmajor governmental fund - Community Center Fund	\$ 28,000
Major Roads Fund	General Fund	5,000
	Local Roads Fund	<u>60,162</u>
	Total Major Roads Fund	65,162
Commerce Park Fund	General Fund	<u>11,000</u>
	Total interfund transfers	<u>\$ 104,162</u>

The transfers from the General Fund to the other nonmajor governmental fund represent the use of unrestricted resources to finance community center programs, in accordance with budgetary authorizations; the transfer from the Major Roads Fund to the Local Roads Fund represents the sharing of gas and weight tax revenues, in accordance with Act 51. The transfer from the Major Roads Fund to the General Fund was done to pay a portion of the non-motorized improvements done by the General Fund. The transfer from the Commerce Park Fund to the General Fund was done to fund a portion of the master plan.

# City of Rockwood, Michigan

## Notes to Financial Statements June 30, 2008

### Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are also general obligations of the government.

Long-term obligation activity is summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Balance July 1, 2007	Additions (Reductions)	Balance June 30, 2008	Due Within One Year
<b>Governmental Activities</b>						
General obligation bonds -						
Unlimited tax bonds series 1999:						
Amount of issue: \$4,000,000	4.50% -	\$185,000 -				
Maturing through May 2019	4.625%	\$345,000	\$ 3,170,000	\$ (165,000)	\$ 3,005,000	\$ 185,000
Installment purchase agreements:						
Fire truck agreement:						
Amount of issue: \$179,158						
Maturing through May 2015	4.45%	\$17,916	143,326	(17,916)	125,410	17,916
2007 Ford F-750 lease:						
Amount of issue: \$85,349		\$10,665 -				
Maturing through June 2013	6.50%	\$13,720	70,737	(10,014)	60,723	10,665
Ford Explorer lease:						
Amount of issue: \$23,456						
Maturing through January 2008	6.20%	\$7,818	7,818	(7,818)	-	-
Total long-term debt			3,391,881	(200,748)	3,191,133	213,581
Compensated absences	N/A	N/A	146,745	21,371	168,116	15,000
Total governmental activities			<u>\$ 3,538,626</u>	<u>\$ (179,377)</u>	<u>\$ 3,359,249</u>	<u>\$ 228,581</u>
<b>Business-type Activities</b>						
General obligation bonds -						
Unlimited tax sanitary sewer bonds series 1998:						
Amount of issue: \$2,250,000	3.85% -	\$75,000 -				
Maturing through May 2022	4.50%	\$165,000	\$ 1,920,000	\$ (70,000)	\$ 1,850,000	\$ 75,000
Compensated absences	N/A	N/A	10,557	3,781	14,338	-
Total business-type activities			<u>\$ 1,930,557</u>	<u>\$ (66,219)</u>	<u>\$ 1,864,338</u>	<u>\$ 75,000</u>

# City of Rockwood, Michigan

## Notes to Financial Statements June 30, 2008

### Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bonds and installment obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2009	\$ 213,581	\$ 146,624	\$ 360,205	\$ 75,000	\$ 78,912	\$ 153,912
2010	229,274	136,809	366,083	85,000	75,912	160,912
2011	250,013	126,273	376,286	95,000	72,512	167,512
2012	270,798	114,790	385,588	105,000	68,712	173,712
2013	291,636	102,355	393,991	115,000	64,302	179,302
2014-2018	1,590,831	303,440	1,894,271	720,000	240,660	960,660
2019-2022	345,000	15,956	360,956	655,000	73,700	728,700
Total	<u>\$ 3,191,133</u>	<u>\$ 946,247</u>	<u>\$ 4,137,380</u>	<u>\$ 1,850,000</u>	<u>\$ 674,710</u>	<u>\$ 2,524,710</u>

### Note 8 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City participates in the Michigan Municipal Liability and Property Pool for claims relating to real and personal property and general liability. The City also participates in the Michigan Municipal League Workers' Compensation Fund for workers' compensation claims, and purchases commercial insurance for medical claims. Settled claims relating to insured risks have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

# City of Rockwood, Michigan

## Notes to Financial Statements June 30, 2008

### Note 9 - Defined Benefit Pension Plan

#### Plan Description

The City participates in the Michigan Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan that covers all employees of the City who work at least 20 hours per week and five months per year. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48917.

#### Funding Policy

The funding policy provides for employer contributions of actuarially determined amounts that are intended to accumulate sufficient assets to pay benefits when due. No contribution is required from the employees. The obligation to contribute to and maintain the system was established by resolution of the City Council.

#### Annual Pension Cost

For the year ended June 30, 2008, the City's annual pension cost of \$65,584 for the plan was equal to the City's required and actual contribution.

The three-year trend information for the plan is as follows:

	Fiscal Year Ended June 30		
	2008	2007	2006
Annual pension costs (APC)	\$ 65,584	\$ 62,437	\$ 98,513
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

The schedule of funding progress is as follows:

Actuarial Valuation Date (Year Beginning January 1)*	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Valuation Payroll (c)	UAAL as a Percentage of Valuation Payroll
2005	\$ 1,472,431	\$ 1,472,431	\$ -	100.0	\$ 714,853	-
2006	1,526,534	1,496,164	(30,370)	102.0	843,358	(3.6)
2007	1,695,024	1,507,214	(187,810)	112.5	889,503	(21.1)

### **Note 9 - Defined Benefit Pension Plan**

#### **Actuarial Methods and Assumptions**

The annual required contribution was determined as part of an actuarial valuation at December 31, 2006, using the entry age actuarial cost method. Significant actuarial assumptions include (a) an interest rate of 8.0 percent and (b) projected salary increases of 4.5 percent to 12.9 percent per year. Both (a) and (b) include an inflation component of 4.5 percent plus a percentage based on an age-related scale to reflect merit, longevity, and promotional pay increases. Although no specific price inflation is needed for this valuation, the 4.5 percent wage inflation assumption would be consistent with a price inflation of 3 percent to 4 percent. The actuarial value of assets was determined on the basis of a method that calculates expected investment income at the valuation rate of return and adds a portion of the difference between the expected investment income and actual investment income earned on a market value basis. The difference in investment income between expected return and market return is recognized over a 10-year period at the rate of 10 percent per year. The unfunded actuarial liability is being amortized as a level percentage of payroll based on the assumption that payroll increases 4.5 percent per year. The remaining amortization period is 28 years.

### **Note 10 - Wastewater Treatment Plant Fund**

During the year ended June 30, 1983, the City entered into an agreement with Wayne County to lease a wastewater treatment plant from the county for a period of 99 years for a cost of \$1. The estimated fair market value of the plant at the time of acquisition was recorded as an asset in the Wastewater Treatment Plant Fund and all subsequent additions and major repairs to the plant have been capitalized.

The City has an operation and maintenance agreement with an engineering firm to provide all routine operation and maintenance services for the treatment plant through June 2009. The monthly fee associated with these services at June 30, 2008 was \$16,221. This fee is subject to review each January and may be adjusted by a mutually acceptable cost of living index. Additional services that are not considered routine are billed separately to the City.



# City of Rockwood, Michigan

## Notes to Financial Statements June 30, 2008

### Note 11 - Designated Fund Balance

Fund balance of the General Fund has been designated for the following purposes:

Deferred compensation (police compensation and vacation time)	\$ 20,000
ACT 48	16,877
Accumulated sick days	106,940
Recreation	7,591
City administration and maintenance equipment	18,996
Police training	3,543
Future retirement health care	400,000
Retirement benefits	58,000
Ajax Paving donation	10,004
Total	<u>\$ 641,951</u>

### Note 12 - Other Postemployment Benefits

The City provides healthcare benefits to all employees upon retirement. Currently, six retirees are eligible. The City includes retirees and their spouses in its insured healthcare plan with some contribution required by the participants, depending on years of service. Expenses for postemployment healthcare benefits are recognized as the insurance premiums become due and totaled \$74,664 during the year ended June 30, 2008.

**Upcoming Reporting Change** - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any other postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the City's year ending June 30, 2009.

### **Note 13 - Joint Venture**

The City is a member of the 33rd District Court System (the "District Court"), which provides judicial services to the City and other neighboring communities. The City appoints one member to this joint venture's governing board who then approves the annual budget. The District Court receives its operating revenue principally through contributions from member communities. During the current year, the City received approximately \$74,000 from the District Court, representing the City's share of the District Court's net activity. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future, other than the fluctuation of case loads, which impacts the governments' share of the District Court's debt. Complete financial statements are available through the City's offices.

## **Required Supplemental Information**

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# City of Rockwood, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
<b>Property Taxes</b>				
Real and personal property taxes	\$ 1,585,885	\$ 1,577,585	\$ 1,577,254	\$ (331)
Tax penalty	5,000	5,000	14,196	9,196
Tax administration fees	28,000	28,000	31,202	3,202
Total property taxes	1,618,885	1,610,585	1,622,652	12,067
<b>State Sources</b>				
Revenue-sharing	342,000	342,000	328,380	(13,620)
Liquor license fees and other	1,200	1,200	1,231	31
Total state sources	343,200	343,200	329,611	(13,589)
<b>Licenses and Permits</b>	37,000	46,000	55,976	9,976
<b>District Court</b>	400,000	370,000	301,507	(68,493)
<b>Interest and Rental Revenue</b>	41,671	71,671	59,144	(12,527)
<b>Intragovernmental Revenue - Reimbursements -</b>				
Roads and water and sewer	150,000	163,122	193,050	29,928
<b>Other Revenue</b>				
Weed cutting	6,000	6,000	3,300	(2,700)
PILOT (senior citizen building)	10,000	10,000	9,864	(136)
Franchise fees	66,000	71,000	76,445	5,445
Park usage and donation	500	500	10,607	10,107
Miscellaneous income	2,997	2,997	19,691	16,694
Police training	2,800	2,800	1,992	(808)
Refuse disposal	111,191	111,191	111,151	(40)
Ambulance service	40,000	40,000	42,038	2,038
Act 48 Metro Authority revenue	-	-	8,211	8,211
Workers' compensation refund	-	2,178	7,201	5,023
Total other revenue	239,488	246,666	290,500	43,834
<b>Transfer from Other Fund</b>	-	11,000	16,000	5,000
Total revenue	2,830,244	2,862,244	2,868,440	6,196

# City of Rockwood, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b><u>Expenses</u></b>				
<b>Administration and General Government</b>				
Legislative	\$ 40,200	\$ 40,200	\$ 39,952	\$ 248
Executive and legal	42,100	42,100	39,212	2,888
Board of Review	600	600	600	-
Elections	19,000	19,000	4,592	14,408
Assessor	15,200	15,200	13,182	2,018
Clerk	247,840	247,840	246,692	1,148
General services	633,300	645,300	592,457	52,843
Inspections	18,000	18,000	31,308	(13,308)
Treasurer	7,340	7,340	5,867	1,473
Building	68,500	68,500	70,443	(1,943)
Total administration and general government	1,092,080	1,104,080	1,044,305	59,775
<b>Public Safety</b>				
Police	847,994	857,994	835,752	22,242
Fire	100,880	100,880	96,631	4,249
Total public safety	948,874	958,874	932,383	26,491
<b>District Court</b>	255,540	255,540	257,893	(2,353)
<b>DPW</b>	200,150	200,150	191,126	9,024
<b>Street Lighting and Rubbish Collection</b>	227,700	227,700	226,190	1,510
<b>Recreation</b>	73,100	92,750	73,275	19,475
<b>Other</b>	32,800	32,800	43,825	(11,025)
Total expenses	2,830,244	2,871,894	2,768,997	102,897
<b>Excess of Revenue Over (Under) Expenses</b>	-	(9,650)	99,443	<b><u>\$ 109,093</u></b>
<b>Fund Balance - July 1, 2007</b>	879,983	879,983	879,983	
<b>Fund Balance - June 30, 2008</b>	<b><u>\$ 879,983</u></b>	<b><u>\$ 870,333</u></b>	<b><u>\$ 979,426</u></b>	

# City of Rockwood, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds Year Ended June 30, 2008

### Major Roads Fund

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
State-shared revenue	\$ 120,000	\$ 120,000	\$ 120,323	\$ 323
Other income	35,000	35,000	1,337	(33,663)
Interest income	10,000	10,000	25,591	15,591
Total revenue	165,000	165,000	147,251	(17,749)
<b>Expenses</b>				
Public works	105,000	105,000	71,458	33,542
Transfer to other fund	60,000	60,000	65,162	(5,162)
Total expenses	165,000	165,000	136,620	28,380
<b>Excess of Expenses Over Revenue</b>	-	-	10,631	<b><u>\$ 10,631</u></b>
<b>Fund Balance - July 1, 2007</b>	668,167	668,167	668,167	
<b>Fund Balance - June 30, 2008</b>	<b><u>\$ 668,167</u></b>	<b><u>\$ 668,167</u></b>	<b><u>\$ 678,798</u></b>	

### Local Roads Fund

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
State-shared revenue	\$ 50,000	\$ 50,000	\$ 53,586	\$ 3,586
Interest income	1,000	1,000	988	(12)
Transfer from other fund	60,000	60,000	60,162	162
Total revenue	111,000	111,000	114,736	3,736
<b>Expenses - Public works</b>	111,000	111,000	111,000	-
<b>Excess of Revenue Over Expenses</b>	-	-	3,736	<b><u>\$ 3,736</u></b>
<b>Fund Balance - July 1, 2007</b>	69,619	69,619	69,619	
<b>Fund Balance - June 30, 2008</b>	<b><u>\$ 69,619</u></b>	<b><u>\$ 69,619</u></b>	<b><u>\$ 73,355</u></b>	

# City of Rockwood, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds (Continued) Year Ended June 30, 2008

### Commerce Park Fund

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b> - Interest income	\$ 1,000	\$ 1,000	\$ 5,339	\$ 4,339
<b>Expenses</b>				
Transfer to General Fund	38,000	38,000	11,000	27,000
Other expenses	-	-	2,957	(2,957)
Total expenses	38,000	38,000	13,957	24,043
<b>Excess of Expenses Over Revenue</b>	(37,000)	(37,000)	(8,618)	<b>\$ 28,382</b>
<b>Fund Balance</b> - July 1, 2007	139,982	139,982	139,982	
<b>Fund Balance</b> - June 30, 2008	<b>\$ 102,982</b>	<b>\$ 102,982</b>	<b>\$ 131,364</b>	

## **Other Supplemental Information**

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# City of Rockwood, Michigan

## Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2008

	Special Revenue Funds			Total Nonmajor Governmental Funds
	Drug Forfeiture	Community Center	Community Development Block Grant	
<b>Assets</b>				
Cash and investments	\$ 12,621	\$ 9,180	\$ 16,594	\$ 38,395
Due from other governmental units	-	-	5,219	5,219
Total assets	<u>\$ 12,621</u>	<u>\$ 9,180</u>	<u>\$ 21,813</u>	<u>\$ 43,614</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ -	\$ 3,519	\$ 4,250	\$ 7,769
Due to other funds	-	-	17,563	17,563
Deposits	-	1,100	-	1,100
Total liabilities	-	4,619	21,813	26,432
<b>Fund Balances - Undesignated</b>	<u>12,621</u>	<u>4,561</u>	<u>-</u>	<u>17,182</u>
Total liabilities and fund balances	<u>\$ 12,621</u>	<u>\$ 9,180</u>	<u>\$ 21,813</u>	<u>\$ 43,614</u>

# City of Rockwood, Michigan

## Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) - Nonmajor Governmental Funds Year Ended June 30, 2008

	Special Revenue Funds			Total Nonmajor Governmental Funds
	Drug Forfeiture	Community Center	Community Development Block Grant	
<b>Revenue</b>				
Federal sources	\$ -	\$ -	\$ 122,919	\$ 122,919
Interest income	9	231	-	240
Other	6,766	37,508	-	44,274
Total revenue	6,775	37,739	122,919	167,433
<b>Expenditures - Current</b>				
Recreation and culture	-	-	122,919	122,919
Public safety	5,907	-	-	5,907
Community center	-	56,812	-	56,812
Total expenditures	5,907	56,812	122,919	185,638
<b>Excess of Revenue Over (Under) Expenditures</b>	868	(19,073)	-	(18,205)
<b>Other Financing Sources - Transfer in</b>	-	28,000	-	28,000
<b>Net Change in Fund Balances</b>	868	8,927	-	9,795
<b>Fund Balances (Deficit) - July 1, 2007</b>	11,753	(4,366)	-	7,387
<b>Fund Balances - June 30, 2008</b>	<u>\$ 12,621</u>	<u>\$ 4,561</u>	<u>\$ -</u>	<u>\$ 17,182</u>



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August 18, 2008

To the Honorable Mayor and  
Members of the City Council  
City of Rockwood, Michigan  
32409 Fort Street  
Rockwood, MI 48173

Dear Mayor and Council Members:

We recently completed the audit of the financial statements of the City of Rockwood, Michigan (the "City") for the year ended June 30, 2008. In addition to the audit report, we offer the following comments for your consideration:

### **Overall Financial Condition**

Over the past several years, the City has been working to maintain a healthy fund balance. The undesignated fund balance for the General Fund is approximately \$437,000 for the year ended June 30, 2008, which is about 16 percent of one year's worth of expenditures. As we have discussed with you in the past, fund balance is necessary due to uncertainty related to major revenue sources and increasing costs. Many of these items are outlined below. The City is positioned in the very short term to weather this downturn because of the fund balance that exists, but we encourage management to make every effort to protect and preserve the level of fund balance. This will ensure the City's health for years to come.

### **Significant Deficiencies and Material Weaknesses Under Statement on Auditing Standards No. 112**

Beginning with last year's audit, national auditing standards call for auditors to communicate matters to the governing body that may be useful in its oversight of the City of Rockwood, Michigan's financial management. Specifically, they require us to report internal control issues to the governing body that may be relatively minor, in order to allow it to evaluate their significance and make any changes it may deem appropriate. In general, these are items that would have been discussed orally with management in the past. The purpose of these new standards is to allow the governing body an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems. We hope this report on internal control will be helpful to you, and we look forward to being able to discuss any questions you may have concerning these issues.

In planning and performing our audit of the financial statements of the City of Rockwood, Michigan as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Rockwood, Michigan's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses:

- Journal entries were required during the audit to ensure the financial statement presentation was in conformity with generally accepted accounting principles, including full accrual presentation of the governmental funds. This qualifies as a material weakness in internal controls. The entries included adjustments required for the full-accrual presentation of the government-wide statements, annual year-end closing entries, and other adjustments related to accounts payable and receivable balances.
- During the audit, we noted the Water and Sewer Fund accounts receivable and accounts payable schedules were not reconciled to the general ledger. Because these accounts were not reconciled, the City did not identify various general ledger mis-postings during the year. The mis-postings were identified during the audit processes and the appropriate adjustments were made.

In addition to the above, we have identified an additional matter that we would like to communicate as a result of our audit. This matter is not considered to be a significant deficiency or material weakness:

- The Water and Sewer inventory accounts have not been reconciled to the general ledger. We suggest performing a physical inventory of these items and adjusting the general ledger if necessary.

Finally, we offer the following comments and recommendations relating to legislative matters for your consideration:

### Revenue Sharing

The governor released her proposal of the State's fiscal year 2009 budget (for the year ending September 30, 2009) originally in February 2008. Over the course of budget deliberations in the spring and early summer, the legislature further debated the level of the revenue-sharing funding, resulting in a compromise by the Senate and House to fund revenue sharing equal to the projected fiscal year 2008 (fiscal year ending September 30, 2008) amounts, plus provide an increase of 2 percent of the statutory portion of revenue sharing received in FY 07. This proposal was presented to the governor on July 25 and is awaiting her signature.

Here is a summary (in millions of dollars) of the revenue-sharing budget submitted to the governor:

	FY 2007 Actual	FY 2008 Projected	FY 2009 Projected	% Change
Cities, Villages, and Townships:				
Constitutional	\$ 665.980	\$ 682.780	\$ 675.992	-0.99%
Statutory	404.920	392.050	406.933	3.80%
Total Cities, Villages, and Townships	1,070.900	1,074.830	1,082.925	0.75%
Counties (statutory)	-	-	2.394	n/a
Total revenue sharing	\$ 1,070.900	\$ 1,074.830	\$ 1,085.319	0.98%

While the projection is for an overall increase of 0.75 percent (for cities, villages, and townships), the impact will not be evenly distributed between all local units. Remember, the 2 percent increase is for the statutory portion only - not the constitutional portion. The intent is for the total revenue sharing (constitutional plus statutory) in FY 2009 to equal the total of constitutional and statutory revenue sharing received in FY 2008, plus an additional payment equal to 2 percent of the FY 2007 statutory revenue sharing received by the local unit. That may mean that for those units (primarily townships) that now receive no statutory revenue sharing, total revenue sharing projected for FY 2009 will be identical to the amounts received in FY 2008. We are awaiting a final distribution table from the Michigan Department of Treasury.

The governor's proposed budget also included \$2.4 million to restore state revenue-sharing payments for the six qualifying counties that will exhaust their revenue-sharing reserve funds in fiscal year 2008/2009. As you may remember, a reserve fund was created for each county in 2005 when the State eliminated counties from the revenue-sharing program (remember, counties only receive statutory revenue sharing, not constitutional). In 2005, counties were required to phase in the early collection of winter property tax payments and to create a reserve fund with a portion of these monies. Counties have been drawing on their reserve funds to replace lost statutory revenue sharing. When the reserve fund is depleted, counties will then look to the State to re-enter the statutory portion of the revenue-sharing program. Prior to their elimination from the revenue-sharing program in 2005, counties statewide received approximately \$182 million annually.

It is encouraging that this budget funds revenue sharing at a higher level than last year. As counties have started to come back into the formula, the legislature has budgeted this as an additional payment, rather than one that reduces distributions to the other local units of government. To a great extent, however, actual revenue-sharing distributions will depend on the stability of the State's budget, as well as the actual level of state tax collections. In addition, we need to remember that the statutory formula expired in 2007 and a new, permanent formula has not been enacted - please remember to remind your state representatives of the importance of extending this legislation.

### **Property Assessment Cap**

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is:

2008	2.3%
2007	3.7%
2006	3.3%
2005	2.3%
2004	2.3%

Also, as you probably recall, the Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the City. In general terms, if growth on the City's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the City to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the City's existing property tax base was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back". However, subsequent to the passage of Proposal A and as a result of changes made to the State's General Property Tax Act, the City is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation.

For the year ended June 30, 2008, the City's Headlee maximum property tax rate for its operating levy was 16.7725 mills, even though the city charter would allow the City to levy 20 mills for operations. Because of changes made to the General Property Tax Act in 1994, this reduction in millage rate is permanent absent a Headlee override vote. Additionally, as demonstrated in several published studies and reports, due to definitional changes made to the General Property Tax Act in 1994, the treatment of uncapped values or the "pop up" amount when a property is transferred or sold (as growth on existing property subject to the Headlee rollback calculation) will continue downward pressure on millage rates, particularly given the significant gap that now exists between taxable value and state equalized value.

### **Property Tax Developments**

The front page story several months ago is now old news. For many communities in Michigan, the challenging real estate market will negatively change the taxable value trends of recent years. Many communities saw modest declines in their 2008 taxable values, and if the downward trend in the housing market continues, the impact will be larger next year. How it will actually play out in each community and over what period of time remains to be seen. The City will need to carefully determine the impact of the current environment on its budget. There are also several pieces of legislation in Lansing that will impact property taxes going forward. Examples include:

- Many property owners continue to struggle with the concept that their individual taxable values actually increased during a time that overall property values - and even their individual property values - have fallen. As we all have relearned in recent months, that is a constitutional requirement that changed with Proposal A in 1994. It may be helpful to remember the principle behind Proposal A - its purpose was to disconnect taxable values from market value increases, and instead limit the growth in taxable values to the lesser of 5 percent or inflation, until that point that the property transfers ownership. Now that the market values are declining in many areas, Proposal A continues to stay disconnected and allows the taxable value to increase by the lesser of 5 percent or inflation (up until the point that it re-connects with market values).

### **Reminder - Change in Investment Act**

Public Act 213 of 2007, adopted at the end of 2007, requires local governments to perform their investment reporting quarterly to the governing body. The investment of surplus monies by Michigan local governments is controlled by Public Act 20 of 1943. The Act previously required investment reporting annually. It is suggested that the required quarterly reports list investments by institution along with maturity dates and interest rates.

### **Recent Revisions to State Transportation Funding Program**

Current legislation modified Act 51 to allow local governments to transfer monies from their Major Street Fund to their Local Street Fund at a level of 50 percent of annual major street funding received. In addition, greater than 50 percent can be transferred. However, the amended law requires that certain conditions be met to allow for a transfer in excess of 50 percent, including the adoption of an asset management process for the Major and Local Street systems as well as a detailed resolution passed by the City. It is important to note that major street monies transferred for use on local streets cannot be used for construction but may be used for preservation. Current legislation also includes a pilot program that would allow for the combination of the Major Street Fund and the Local Street Fund if certain conditions are met.

### **Other Legislative Items**

- As part of Michigan's new Planning Enabling Act, many local governments will now be required to prepare an annual capital improvements program. This new requirement is effective September 1, 2008. According to Public Act 33 of 2008, a planning commission, after the adoption of a master plan, shall annually prepare a capital improvements program of public structures and improvements. The law does allow that if the planning commission is exempted from this requirement, the legislative body shall prepare and adopt a capital improvements program or delegate this responsibility to the administration of the local unit for the ultimate approval by the legislative body. The law provides that the capital improvement program report public structures and improvements that, in the community's judgment, will be needed or desirable within the next six years. The law also requires that the public structures and improvements included in the capital improvements program be prioritized. In general, Plante & Moran strongly encourages the development of a capital plan. While the law is restricted to "public structures and improvements," we strongly encourage the inclusion of all capital assets - vehicles, machinery and equipment, office furnishings, etc. In addition, we feel the participation of the governing body (in addition to or instead of the planning commission) is good public policy.

This same public act added several other requirements of planning commissions, including annual reporting by the planning commission to the legislative body along with the mandatory creation of a master plan.

- Multiple bills are pending in Lansing that would make changes to investment laws governing Michigan communities. Changes have been proposed to add different types of investments to what is commonly referred to as Public Act 20 which governs the investment of surplus operating monies. Changes are also being proposed to the laws governing the investment of retirement monies.



To the Honorable Mayor and  
Members of the City Council  
City of Rockwood, Michigan

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August 18, 2008

We would like to thank the City's staff again this year for the cooperation and assistance they provided during the audit. If you have any questions or would like to discuss these items further, please feel free to contact us at your convenience.

Yours very truly,

**Plante & Moran, PLLC**

A handwritten signature in black ink that reads "Blake Roe". The signature is written in a cursive, flowing style.

Blake M. Roe

A handwritten signature in black ink that reads "Will Brickey". The signature is written in a cursive, flowing style.

William E. Brickey

August 18, 2008

To the Honorable Mayor and  
Members of the City Council  
City of Rockwood, Michigan  
32409 Fort Street  
Rockwood, MI 48173

We have audited the financial statements of the City of Rockwood (the "City") for the year ended June 30, 2008 and have issued our report thereon dated August 18, 2008. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated June 4, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the City of Rockwood. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

**Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on July 28, 2008.

## **Significant Audit Findings**

### **Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Rockwood are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. We noted no significant estimates on the City's financial statements except for estimated unbilled water and sewer charges in the Water and Sewer Fund.

### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no uncorrected misstatements identified during the audit. The following material misstatement detected as a result of audit procedures was corrected by management:

- In order to comply with GASB 34, long-term debt and capital assets, including depreciation, were recorded on the government-wide statements and within the enterprise funds.

During the course of the audit, there were various other adjustments that were either brought to our attention by management or recommended by us as a result of our testing that were corrected by management.

### **Disagreements with Management**

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Management's Representations**

We have requested certain representations from management that are included in the management representation letter dated August 18, 2008.

### **Management's Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Other Audit Findings or Issues**

In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the City, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the City's auditors.

To the Honorable Mayor and  
Members of the City Council  
City of Rockwood

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August 18, 2008

This information is intended solely for the use of the City Council and management of the City of Rockwood and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**Plante & Moran, PLLC**

A handwritten signature in black ink that reads "Blake Roe". The signature is written in a cursive, flowing style.

Blake M. Roe

A handwritten signature in black ink that reads "William Brickey". The signature is written in a cursive, flowing style.

William E. Brickey